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CANADIAN HOMESTEAD OILS Limited

ANNUAL REPORT 1968

CANADIAN HOMESTEAD OILS Limited AND SUBSIDIARIES

DIRECTORS

H. Ross Bolton
Vice-President of Hillman Coal and Coke Company
Houston, Texas

F. R. Graham, Jr.
Vice-Chairman of Oswald, Drinkwater & Graham Ltd.
Montreal, Quebec

B. O. Jones
Executive
Vancouver, B.C.

J. R. Learn
Vice-President and Director of Nesbitt, Thompson, and Company, Limited
Montreal, Quebec

J. M. Robertson, Q.C.
Partner in Fenerty, McGillivray, Robertson, Prowse, Brennan, Fraser, Bell and Code
Calgary, Alberta

B. W. Watson
President of the Company
Calgary, Alberta

OFFICERS

B. W. Watson	*President*
A. G. Savage	*Vice-President - Operations*
D. E. Wikant	*Vice-President and Treasurer*
J. M. Robertson, Q.C.	*Secretary*

HEAD OFFICE

630 - 6th Avenue S.W., Calgary 1, Alberta

Registrar and Transfer Agents

Crown Trust Company
Calgary, Toronto, Montreal, Vancouver

Registrar and Transfer Company
New York, Jersey City

Shares Listed

Common Shares —
Toronto, Canadian and American Stock Exchanges

Preferred Shares —
Toronto Stock Exchange

Bankers

The Royal Bank of Canada
Calgary, Alberta

Auditors

Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Subsidiary Companies

Canadian Admiral Oils Co.
Canadian Homestead Minerals Limited
Canadian Homestead Resources Limited
Petcal Company Limited

ANNUAL REPORT 1968

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Annual Meeting

An Annual and Extraordinary General Meeting of the shareholders of the Company will be held at the head office of the Company on Friday, September 13th, 1968, at 10:00 a.m. Shareholders of record as of August 2nd, 1968, will be entitled to vote at this meeting. Notice of meeting, a proxy form and a proxy statement and information circular have been previously mailed.

HIGHLIGHTS

- Arrangements completed whereby $18,212,161 will be expended by another company in developing Homestead's acreage.
- Company issues 250,000 6% Cumulative Redeemable Convertible Sinking Fund Preferred Shares for a total consideration of $2,500,000.
- 17 successful wells completed in the Leafland area of the Willesden Green field in west-central Alberta.
- Commenced development of 70 sections of gas land in East Hatton area of Saskatchewan.

COMPARATIVE SUMMARY

Financial	1968	1967
Gross income	$2,107,000	$1,735,000
Cash flow	$1,097,000	$ 810,000
Per common share	$ .30	$ .24
Net earnings	$ 566,000	$ 362,000
Per common share	$ .15	$ .11
Working capital	$1,522,000	$ 87,000
Long term debt	$2,767,000	$3,332,000
Growth expenditures	$1,510,000	$1,370,000
Shares outstanding		
Common	3,521,900	3,435,900
Preferred	245,000	
Operating		
Oil and condensate production - net barrels	615,000	492,000
Natural gas sales - mcf	1,266,000	1,360,000
Net acreage - acres	2,324,000	2,128,000

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

In 1968 Canadian Homestead Oils Limited has again reached record levels in virtually all phases of its operations. This has been the result of a plan for growth adopted by the Company under which it has actively engaged in the purchase and development of proven and semi-proven properties while carrying out a modest exploration program.

Growth expenditures during the last five years have totalled $8,704,000 as compared with $269,000 in the previous five year period. Accordingly, production, revenue, cash flow and net earnings have experienced marked increases.

Financial

Gross income in 1968 increased 21% to $2,107,000, cash flow increased 35% to $1,097,000 ($.30 per common share) and net earnings increased 56% to $566,000 ($.15 per common share).

New public financing was undertaken during the year in the form of an issue of 250,000 6% Cumulative Redeemable Convertible Sinking Fund Preferred Shares with a par value of $10.00 each. The proceeds from the issue of these shares were used to repay bank indebtedness and to provide working capital which at the year end was $1,522,000 as compared with $87,000 in 1967.

Development and Production

During the year 17 successful development wells were drilled in the Leafland area of the Willesden Green field in west-central Alberta. Homestead had the major interest in this project and the beneficial results are reflected in a significant increase in crude oil production for the year and the resultant rise in income from this source.

Production of crude oil and condensate averaged 1,681 barrels per day, an increase of 333 barrels per day or 25% over the 1967 rate.

Natural gas production in 1968 averaged 3.47 million cubic feet per day, a decrease of 7% from that of the preceding year. This reduction is attributable to reduced requirements by the purchasers.

Arrangements have recently been completed with the Saskatchewan Power Corporation which will result in the immediate development by Homestead and another company of about 70 sections of gas land in the East Hatton area of Saskatchewan. Reserves in the area involved are estimated at 50 billion cubic feet and delivery of gas, which is to commence by November 1st, will be 2 billion cubic feet per year for the first 10 years of the agreement and then as available for the remaining life of the field. Sales from this area should materially increase the Company's gas income.

Exploration and Land

As a continuation of the exploration program embarked upon in the preceding year the Company participated in the drilling of 3 wells in the Keg River play of northern Alberta and northeast British Columbia. Although none of these wells encountered production, Homestead still retains an acreage position in the area.

During the year the Company commenced participation in basic minerals exploration by the acquisition of claims in the Northwest Territories and northern Saskatchewan. A total of 52 claims have been staked in areas which are deemed prospective for mineral deposits.

The Company's holding of exploratory acreage showed an overall increase in 1968. The majority of the acquired acreage has been in areas which will ensure Homestead exposure to exploration activity conducted by others on adjoining lands.

Company Outlook

The very favorable pattern which has developed in recent years is expected to continue into the future as a result of an agreement which has been reached with another company calling for expenditures by it of $18,212,161 in exploring and developing Homestead's acreage over a nine year period. Details of this agreement are more specifically set out in the Proxy Statement and Information Circular which accompanies this Report.

It is the feeling of your Directors that the assurance of an availability of exploration funds such as this is most desirable for the continued growth and expansion of the Company. Not only will it provide funds of a magnitude far in excess of those which have been available in the past but it will also free cash generated from operations for future acquisitions and development.

Industry Outlook

Unsettled conditions in the world generally and in the Middle East particularly has focused attention on Canada as a stable source of supply for the ever-increasing demand for hydrocarbons by the United States.

The approval, in early 1968, of a large diameter pipeline linking the Interprovincial system with Chicago, to be followed by an extension to Sarnia in 1969, has enhanced possibilities for the expansion of our markets.

Summary

We wish at this time to welcome our many new shareholders and to thank all shareholders for their continuing support.

The sincere appreciation of the Directors is also extended to the employees for the contributions they have made to the Company's continued growth.

For the Board of Directors

President.

REVIEW OF OPERATIONS

Exploration

Exploration continued during the year in the Rainbow - Zama Lake region of northwestern Alberta and adjacent British Columbia. Three wells drilled in the Rainbow South, Shekilie River and Beaverskin areas failed to encounter production. Further drilling is anticipated on acreage held by the Company in this area and negotiations are being carried on to acquire additional prospects.

Homestead made a land contribution and participated for a small working interest in an unsuccessful test drilled recently in the Cape Breton area of the Province of Nova Scotia. This well lies in close proximity to the Company's 189,000 wholly-owned acres, much of which remains prospective and carries high speculative interest.

In the Province of Saskatchewan the Company still retains an interest in large acreage blocks in the Yellow Creek and Assiniboia areas. An extensive geophysical program has been conducted on the Yellow Creek acreage. It is hoped that drilling arrangements for this prospect can soon be completed.

Development

Homestead drilled or participated in the drilling of 11.26 net development wells during 1968 all of which were productive oil wells. This compares with 2.82 net development wells drilled in 1967. The increase results from the successful drilling program recently completed in the Leafland area of the Willesden Green field in west central Alberta in which the Company had an average participation of 65% in 17 wells.

In the East Hatton area of Saskatchewan a development program is currently underway on 70 sections of gas lands. This program calls for the drilling of 25 wells in addition to the construction of gas gathering and compression facilities. The first deliveries of gas from this area are scheduled for November 1st of this year.

GROWTH EXPENDITURES
(in Thousands of Dollars)

	1968	1967	1966
Land and Rentals	$ 136	$ 420	$ 226
Geological and Geophysical	124	163	53
Non-Productive Drilling	109	239	71
Productive Drilling	627	215	114
Production Equipment	514	333	91
Acquire Subsidiary Company	—	—	2,360
	$1,510	$1,370	$2,915

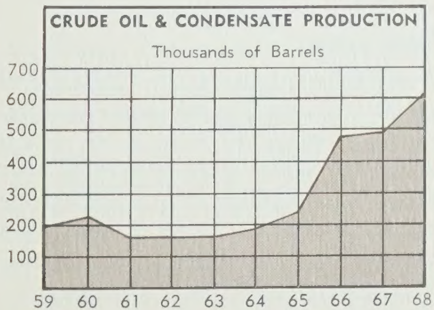
The Company's 1968 production of crude oil and condensate averaged 1681 barrels per day (net after deduction of royalties) as against 1348 barrels daily in the preceding year. Most of the

growth in production is from the Willesden Green field where wells drilled during the year resulted in an increase of approximately 300 barrels per day.

Reversionary interests held in the Instow and Weyburn Units in Saskatchewan became effective during 1968 and will add substantially to our future oil production.

Emphasis continues to be placed on enhanced recovery projects in order to improve current rates of oil production and increase the ultimate recovery of oil. Homestead placed 18 wells under gas injection or waterflood schemes during the year.

Natural gas produced and sold in 1968 averaged 3.47 million cubic feet daily, a decrease of 7% from that of the previous year. This reduction is the result of reduced requirements by the purchasers.



Land

Gross and net land holdings at May 31, 1968 totalled 4,037,000 and 2,324,000 acres respectively, as compared to a gross of 3,805,000 and a net of 2,128,000 a year previous. The detail as to acreage holdings by area is shown in the following summary.

LAND HOLDINGS SUMMARY
May 31, 1968

	Acres Gross	Acres Net
Alberta	466,000	165,000
British Columbia	381,000	45,000
Saskatchewan	702,000	270,000
Manitoba	5,000	5,000
Northwest Territories	1,738,000	1,221,000
Nova Scotia	205,000	189,000
Newfoundland	444,000	333,000
Yukon Territory	96,000	96,000
	4,037,000	2,324,000

The Company has made numerous changes in its acreage position during the year in a continuing process of upgrading its holdings and improving exploration and development prospects, however, the change in total acreage held is small.

MAJOR EXPLORATION HOLDINGS

Area	Acres Gross	Acres Net	
ALBERTA			
Edson	10,720	10,720	R
Lac La Biche	125,752	23,998	R
North Jasper	11,040	11,040	L
North Marten Hills	46,009	29,654	R & L
Panther River	18,080	1,356	L
Saddle Hills	30,076	30,076	R & L
BRITISH COLUMBIA			
Beaverskin	13,467	1,347	DR
Graham Island	75,338	37,669	R
Kobes Creek	49,053	1,472	L
SASKATCHEWAN			
Assiniboia	99,297	24,824	R
Beaver Valley	47,680	47,680	R
Coleville	72,536	36,036	R & L
Donegal	58,240	14,560	R
Lac La Ronge	9,000	9,000	C
Rutland	57,440	14,360	R
Yellow Creek	99,520	99,520	R
NORTHWEST TERRITORIES			
Akpotok Island	316,301	316,301	R
Arctic Islands	1,419,472	904,284	R
NOVA SCOTIA			
Cape Breton	204,802	189,538	R
NEWFOUNDLAND			
Grand Banks	444,433	333,325	R
YUKON TERRITORY			
Beaver River	95,820	47,910	R

R—Crown Permit or Reservation convertible into Lease to the extent of approximately 50%.
DR—Drilling Reservation.
L—Lease.
C—Mining Claim.

Areas of Interest

BEAVER RIVER

In the Beaver River area of the Yukon Territory where Homestead has a 50% interest in 95,820 permit acres, another company has agreed to carry out a seismic program with an option to earn a 50% interest in the acreage by drilling a well.

LAC LA BICHE

The Company owns a 25% and a 12½% interest respectively in 66,232 and 59,520 acres of petroleum and natural gas reservations in this area. A well, McD Chiefco LaBiche 10-11-67-12-W4, drilled on the latter reservation was abandoned as a dry hole. The property remains prospective for a shallow gas play.

ARCTIC ISLANDS

Homestead has interests ranging from 25% to 75% in 1,419,472 permit acres in the Arctic Islands. It has farmed-out it's interest in 1,277,-652 acres to Panarctic Oils Ltd., under an agreement whereby that company can earn up to 85% by fulfilling certain committments. The Panarctic program involves exploration of 44,000,000 acres in this region. Geological and seismograph exploration is currently underway and it is anticipated that deep drilling will begin this winter.

GRAND BANKS

A 75% interest is held in blocks comprising 444,433 permit acres on the Grand Banks off the coast of Newfoundland. During the past year two major oil companies have carried out extensive geophysical exploration in this region as well as drilling two tests in close proximity to our acreage. One hole was dry and abandoned, while the other was suspended due to weather conditions. Further drilling is expected in this area during the coming year.

AKPOTOK ISLAND

On Akpotok Island in the Northwest Territories a 100% interest is owned in 316,301 acres of petroleum and natural gas rights. There are no immediate plans for exploratory work on this acreage, however, much will depend on activity by others in this area.

GRAHAM ISLAND

Homestead owns a 50% interest in 75,338 permit acres on Graham Island off the British Columbia coast. This is an area where a major oil company has been carrying out a vast offshore exploratory drilling program. To date only non-commercial oil and gas shows have been encountered, however, interest remains high as drilling continues.

EAST PINE POINT

Participation in basic minerals exploration began during the year with the acquisition of a 25% interest in 50 mining claims covering approximately 2,582 acres in the East Pine Point area of the Northwest Territories. To date only line cutting operations have been carried out, however, it is expected that a structure test hole will soon be drilled. Exploration activity is currently being carried out by others on adjoining properties.

LAC LA RONGE

As an adjunct to the East Pine Point venture, Homestead has also acquired 2 mining claims covering 9,000 acres in the Lac La Ronge area of Saskatchewan. This interest is held 100% by the Company. Reconnaissance geologic mapping of the claim blocks was recently conducted and plans call for further evaluation work during the coming winter.

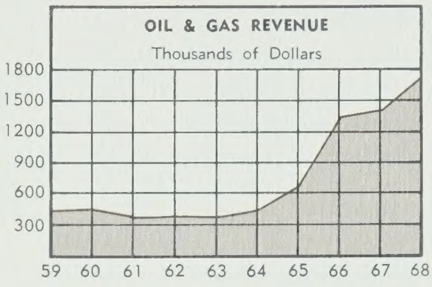
NORTH JASPER

An evaluation program was commenced during the year on our wholly-owned coal leases covering 11,040 acres in the Jasper National Park area of Alberta. A limited amount of trenching has been carried out in an attempt to assess both the quantity and quality of coal available. Initial tests have been encouraging and more extensive exploratory work is forthcoming.

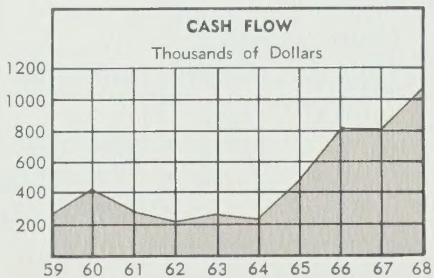
FINANCIAL REVIEW

Gross income for 1968 amounted to $2,107,000 an increase of 21% over 1967. The increase is primarily attributed to higher oil sales which have resulted from development drilling conducted during the year.

	Gross Income 1968	Gross Income Change from 1967
Net oil sales	$1,440,000	$+353,000
Net gas sales	158,000	— 13,000
Royalty income	174,000	— 4,000
Oil and gas revenue	1,772,000	+336,000
Management and consulting fees	293,000	+ 24,000
Other income	42,000	+ 12,000
Gross income	$2,107,000	$ 372,000



Cash flow from operations increased 35% to $1,097,000 ($.30 per common share) in 1968 as compared with $810,000 ($.24 per common share) in 1967.



Net earnings reached a record $566,000 up 56% over the previous high of $362,000 earned in the preceding year. Earnings per common share were $.15 compared with $.11 in 1967.

Working capital at the year end totalled $1,522,000 as compared to $87,000 a year earlier. Despite growth expenditures of $1,510,000, the cash generated from operations plus proceeds from the issue of Preferred shares were sufficient to meet this outlay as well as provide increased working capital.

DISTRIBUTION OF THE OIL AND GAS INCOME DOLLAR
(In cents)

	1968	1967	1966
GROSS OIL AND GAS INCOME	100.0	100.0	100.0
Production expenses	21.0	20.9	21.9
General and administrative expenses — net of management and consulting fees	6.1	8.6	9.8
Interest on long term debt	12.4	15.2	9.6
CASH FLOW	60.5	55.3	58.7
Depreciation and depletion	29.0	29.5	38.0
Other expenses (income)	.3	1.1	(.2)
NET EARNINGS	31.2	24.7	20.9

CONSOLIDATED BALANCE SHEET

MAY 31, 1968 and 1967

Assets

	1968	1967
CURRENT:		
Cash and deposit receipts	$ 1,576,292	$ 98,828
Accounts receivable	1,075,772	566,686
Notes receivable		15,000
Prepaid expenses	3,844	5,633
Total current assets	2,655,908	686,147
NOTES RECEIVABLE	62,200	53,700
PROPERTY AND EQUIPMENT — AT COST (NOTE 2):		
Oil and gas properties less accumulated depletion (1968 — $1,755,791; 1967 — $1,575,178)	6,578,895	5,897,615
Production and other equipment less accumulated depreciation (1968 — $1,248,779; 1967 — $1,031,124)	804,254	593,236
	7,383,149	6,490,851
OTHER — AT COST:		
Sundry investments	13,842	11,417
Drilling and other deposits	96,975	97,207
Unamortized note discount and expense	183,126	197,679
	293,943	306,303
	$10,395,200	$ 7,537,001

Approved on behalf of the Board:

B. W. WATSON, *Director*

J. M. ROBERTSON, *Director*

See accompanying notes to consolidated financial statements.

Liabilities

	1968	1967
CURRENT:		
Bank loan	$	$ 69,000
Accounts payable and accrued liabilities	648,715	355,836
Deposits on ventures	155,567	
Current portion of long term debt	329,310	174,088
Total current liabilities	1,133,592	598,924
LONG TERM DEBT (NOTE 3)	2,767,491	3,331,855
SHAREHOLDERS' EQUITY (NOTES 4 AND 8):		
Share capital:		
6% cumulative redeemable convertible sinking fund preferred shares with a nominal or par value of $10 per share. Authorized and issued 250,000 shares less redeemed during year 5000 shares	2,450,000	
Common shares with a nominal or par value of 10 cents per share. Authorized 5,000,000 shares; issued 3,521,900 shares (1967–3,435,900 shares)	352,190	343,590
Paid-in surplus	3,157,804	6,222,368
Capital redemption reserve fund	50,000	
Retained earnings from June 1, 1967 (deficit)	484,123	(2,959,736)
	6,494,117	3,606,222
CONTINGENT LIABILITIES (NOTE 7)		
	$10,395,200	$ 7,537,001

Auditors' Report

To the Shareholders:

We have examined the consolidated balance sheet of Canadian Homestead Oils Limited and subsidiaries as of May 31, 1968 and the consolidated statements of earnings, retained earnings (deficit), paid-in surplus, capital redemption reserve fund and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiaries at May 31, 1968 and the results of their operation and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Alberta
August 9, 1968.

Consolidated Statement of Earnings

YEARS ENDED MAY 31, 1968 AND 1967

	1968	1967
INCOME:		
Oil and gas revenue	$ 1,771,896	$ 1,435,746
Management and consulting fees	293,271	269,116
Other	42,348	30,136
	2,107,515	1,734,998
EXPENSES:		
Production	380,384	306,791
General and administrative	404,145	395,146
Interest on long term debt	225,831	222,858
	1,010,360	924,795
CASH FLOW FROM OPERATIONS	1,097,155	810,203
DEDUCT:		
Depreciation and depletion	525,948	432,160
Note discount and expense amortized	14,553	15,766
Other	(9,200)	419
	531,301	448,345
NET EARNINGS FOR THE YEAR (NOTE 5)	$ 565,854	$ 361,858

Consolidated Statement of Retained Earnings (Deficit)

YEARS ENDED MAY 31, 1968 AND 1967

	1968	1967
DEFICIT AT BEGINNING OF YEAR	$ 2,959,736	$ 3,321,594
Appropriation from paid-in surplus (Note 8)	2,959,736	
		3,321,594
Net earnings for the year	565,854	361,858
	565,854	2,959,736
DEDUCT:		
Dividends on preferred shares	31,731	
Transfer to capital redemption reserve fund	50,000	
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ 484,123	$(2,959,736)

Consolidated Statement of Capital Redemption Reserve Fund

YEAR ENDED MAY 31, 1968

	1968
Transfer from retained earnings	$ 50,000
BALANCE AT END OF YEAR	$ 50,000

Consolidated Statement of Paid-In Surplus

YEARS ENDED MAY 31, 1968 AND 1967

	1968	1967
BALANCE AT BEGINNING OF YEAR	$ 6,222,368	$ 6,220,118
DEDUCT:		
Appropriated to deficit (Note 8)	2,959,736	
Expenses of issuing preferred shares	189,103	
	3,148,839	
	3,073,529	6,220,118
Premium on issue of common shares (Note 4)	77,400	2,250
Gain on redemption of preferred shares	6,875	
BALANCE AT END OF YEAR	$ 3,157,804	$ 6,222,368

Consolidated Statement of Source and Use of Funds

YEARS ENDED MAY 31, 1968 AND 1967

	1968	1967
SOURCE OF FUNDS:		
Cash flow from operations	$ 1,097,155	$ 810,203
Net proceeds on issue of preferred and common shares (Note 4)	2,396,897	2,500
Sales of properties and equipment	119,383	41,126
Production bank loans	850,000	198,670
Long term receivable becoming current		15,000
Long term note receivable repaid		8,935
Other	451	288
	4,463,886	1,076,722
USE OF FUNDS:		
Additions to properties and equipment	1,528,690	1,418,489
Increase (decrease) in drilling and other deposits	(232)	25,328
Repayment of production bank loans	1,048,670	
Payments on Series A and B notes, net of current portion	365,694	174,483
Redemption of preferred shares	43,125	
Dividends on preferred shares	31,731	
Increase in long term note receivable	8,500	
Note discount and expense		3,180
Other	2,615	2,728
	3,028,793	1,624,208
Increase (decrease) in working capital	$ 1,435,093	$ (547,486)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

MAY 31, 1968

1. BASIS OF CONSOLIDATION:
The accompanying consolidated financial statements include the accounts of Canadian Homestead Oils Limited and its subsidiary companies.

2. ACCOUNTING POLICY:
The companies follow the full-cost method of accounting wherein all costs and expenses of exploring for and developing oil and gas reserves are capitalized and depleted on the composite unit of production method.

3. LONG TERM DEBT:

	1968	1967
Bank loan	$	$ 267,670
6½% secured note, Series A due December 31, 1980	1,557,000	1,662,500
6% secured note, Series B due December 31, 1980 (payable in U.S. funds of $1,432,437	1,539,801	1,644,773
	3,096,801	3,574,943
Less current portion	329,310	243,088
	$ 2,767,491	$ 3,331,855

The notes are secured by an assignment and mortgage of the interests of the Company and a subsidiary in certain oil and gas properties. The Series A and Series B notes are payable in quarterly instalments in amounts escalating from $21,875 to $32,125 and $20,125 (U.S.) to $29,565 (U.S.) respectively.

The principal payments required in each of the next five fiscal years are set out below:

	Series A Note	Series B Note (U.S. funds)
Year ended May 31, 1969	$ 93,750	$ 86,250
Year ended May 31, 1970	112,500	103,500
Year ended May 31, 1971	116,500	107,190
Year ended May 31, 1972	128,500	118,260
Year ended May 31, 1973	128,500	118,260

4. SHARE CAPITAL:
On February 13, 1968 the Company changed its authorized share capital from 5,000,000 shares with a nominal or par value of 10 cents per share to 5,000,000 common shares with a nominal or par value of 10 cents per share and 250,000 6% cumulative redeemable convertible sinking fund preferred shares with a nominal or par value of $10 per share.

On March 12, 1968 the company issued 250,000 6% cumulative redeemable convertible sinking fund preferred shares for a total cash consideration of $2,500,000. The underwriting commission of $112,500 and other expenses of $76,603 applicable thereto were charged to paid-in surplus.

The preferred shares are redeemable in whole or in part at the option of the Company at $10.30 per share to February 15, 1976 and thereafter at redemption prices reducing to $10.10 after February 15, 1979.

So long as any of the preferred shares are outstanding the Company shall establish a sinking fund, sufficient to redeem $100,000 par value of preferred shares at a price equal to the par value plus one-half the then prevailing redemption premium plus accrued dividends, on August 15, and February 15 in each of the years, commencing August 15, 1973 to August 15, 1985, inclusive. In addition the Company must redeem certain of the shares if under certain conditions the consolidated net worth, as defined, falls below a certain amount in relationship to aggregate par value of preferred shares outstanding.

At the option of the holder each preferred share may be converted into 2 common shares at any time after August 15, 1968 and on or before August 15, 1972 and thereafter may be converted into 1½ common shares on or before August 15, 1976. The conversion rates are subject to adjustment under certain events. So long as any of the preferred shares are outstanding the rights attached to the preferred shares places certain restrictions on the payment of dividends on common shares and reduction of capital.

During the year the Company issued 86,000 common shares of a par value of 10 cents each, pursuant to a stock option plan for officers and employees of the Company and of its subsidiaries at a price of $1.00 per share. The cash consideration was credited to share capital and paid-in surplus in the amounts of $8,600 and $77,400 respectively.

On September 22, 1967 the Company reserved 125,000 common shares for the purpose of granting options to officers and employees of the Company and of its subsidiaries at a price of $4.50 per share. On June 26, 1968 options were granted on 113,000 of the shares so reserved. The options are exercisable as follows:

50% after September 22, 1968
25% after September 22, 1969
25% after September 21, 1970

The options expire prior to September 22, 1972.

At May 31, 1968 the Company has reserved the following common shares: 125,000 shares in respect to stock option referred to above. 500,000 shares for exercise of conversion privilege attaching to the 6% cumulative, redeemable convertible sinking fund preferred shares.

Subsequent to May 31, 1968 the directors have approved, subject to ratification by the shareholders, the following transactions:

(a) An increase of the authorized share capital by the creation of an additional 2,500,000 common shares with a nominal or par value of 10 cents per share;

(b) An agreement whereby Canadian Propane Consolidated Limited ("Propane") is committed to expend an aggregate of $9,000,000 in exploration and drilling operations on properties of the company. All wells drilled and all production obtained will belong to the company but Propane will retain the expenditures under the agreement. The company agrees to issue to Propane 1,636,363 common shares at the rate of one share for each $5.50 of the monies so expended. In addition Propane has an option to acquire a further 1,381,838 common shares at $6.66⅔ per share by committing to and making further expenditures in the aggregate amount of $9,212,000.

5. INCOME TAXES:
No provision has been made for income taxes since the companies have incurred losses in prior years or expended more than sufficient amounts on drilling and exploration expenses which may, for income tax purposes, be applied against the reported earnings so that no income taxes are payable.

6. REMUNERATION:
The aggregate remuneration of directors and senior officers, under Section 124 of the Companies Act amounted to $91,338 for the year ended May 31, 1968 ($89,325 for 1967).

7. COMMITMENTS:
The Company has entered into a lease agreement covering its office premises which expires on April 30, 1981. The current annual rental is approximately $28,000 but is subject to cost variations as set out in the lease.

The companies have issued to and deposited with the Governments of Canada and Alberta non-interest bearing demand notes to be held as security for the performance of work obligations in respect to certain exploratory rights. The aggregate of such notes amounted to approximately $136,000 at May 31, 1968.

8. RETAINED EARNINGS (DEFICIT):
During the year the directors of the Company approved the appropriation of an amount from paid-in surplus equal to the Company's consolidated deficit at June 1, 1967, which amount was used to eliminate the consolidated deficit as of that date. This appropriation was approved by the shareholders and has been reflected in the accompanying consolidated financial statements.

TEN YEAR REVIEW

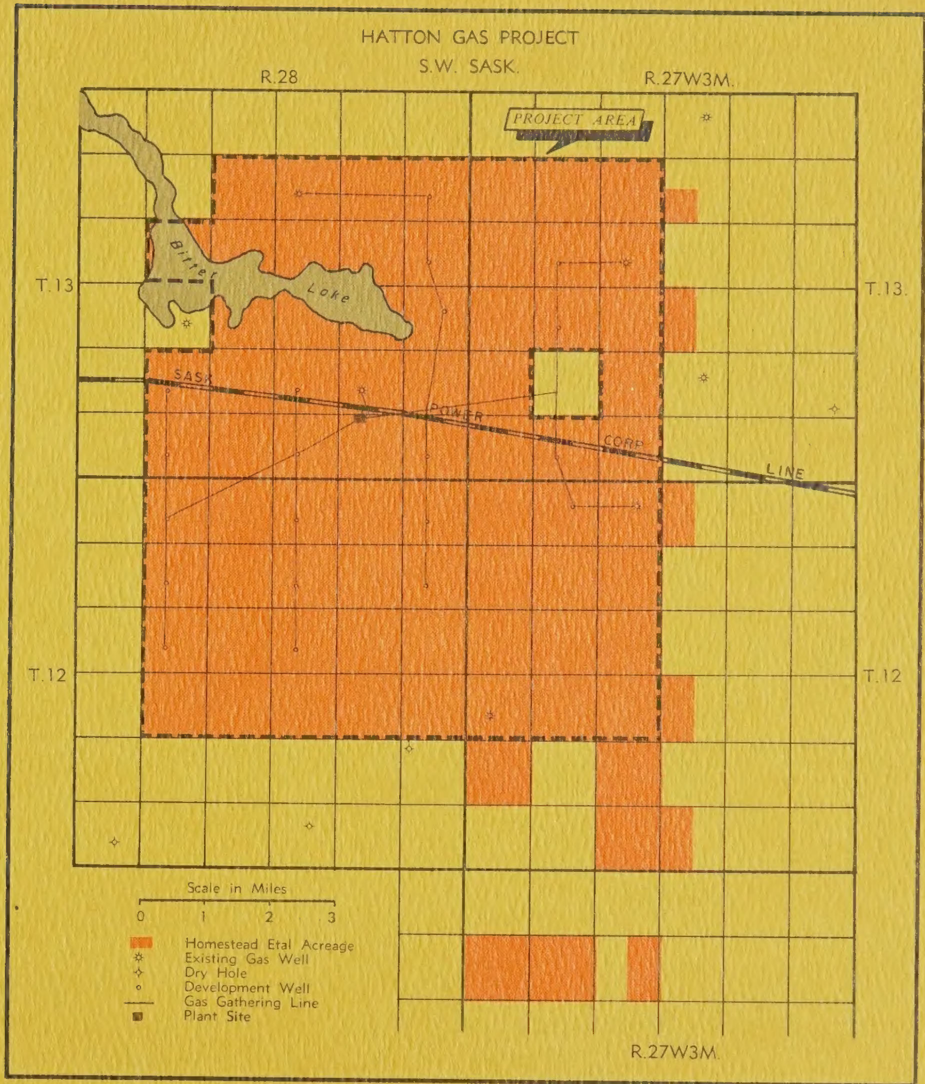
	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Financial										
Oil and gas revenue . .	$1,772,000	$1,436,000	$1,354,000	$ 697,000	$ 435,000	$ 390,000	$ 382,000	$ 378,000	$ 448,000	$ 438,000
Gross income (2) . . .	2,107,000	1,735,000	1,622,000	960,000	745,000	720,000	621,000	2,544,000	2,513,000	2,152,000
Production, contract drilling, administration and interest expense (2) .	1,010,000	925,000	810,000	465,000	511,000	452,000	406,000	2,268,000	2,089,000	1,865,000
Cash flow	1,097,000	810,000	812,000	495,000	234,000	269,000	206,000	276,000	424,000	287,000
Net earnings (loss) (3) .	566,000	362,000	290,000	238,000	(4,000)	(19,000)	12,000	(620,000)	(652,000)	(480,000)
Growth expenditures (4) .	1,510,000	1,370,000	2,915,000	2,155,000	754,000	103,000	38,000	55,000	45,000	28,000
Working capital	1,522,000	87,000	635,000	481,000	976,000	1,485,000	1,348,000	1,020,000	791,000	501,000
Long term debt	2,767,000	3,332,000	3,308,000	908,000					534,000	385,000
Operating										
Production:										
Oil and condensate — net barrels . . .	615,000	492,000	477,000	221,000	169,000	156,000	155,000	155,000	210,000	194,000
Gas — net mcf . .	1,266,000	1,360,000	1,307,000	1,186,000	714,000	547,000	733,000	733,000	659,000	666,000
Land holdings:										
Gross acres	4,037,000	3,805,000	3,282,000	3,010,000	3,658,000	3,309,000	3,172,000	2,856,000	6,134,000	4,557,000
Net acres	2,324,000	2,128,000	1,932,000	1,295,000	1,319,000	1,089,000	575,000	325,000	2,279,000	675,000

(1) The above statistics are for Canadian Homestead Oils Limited and its subsidiary companies at May 31.

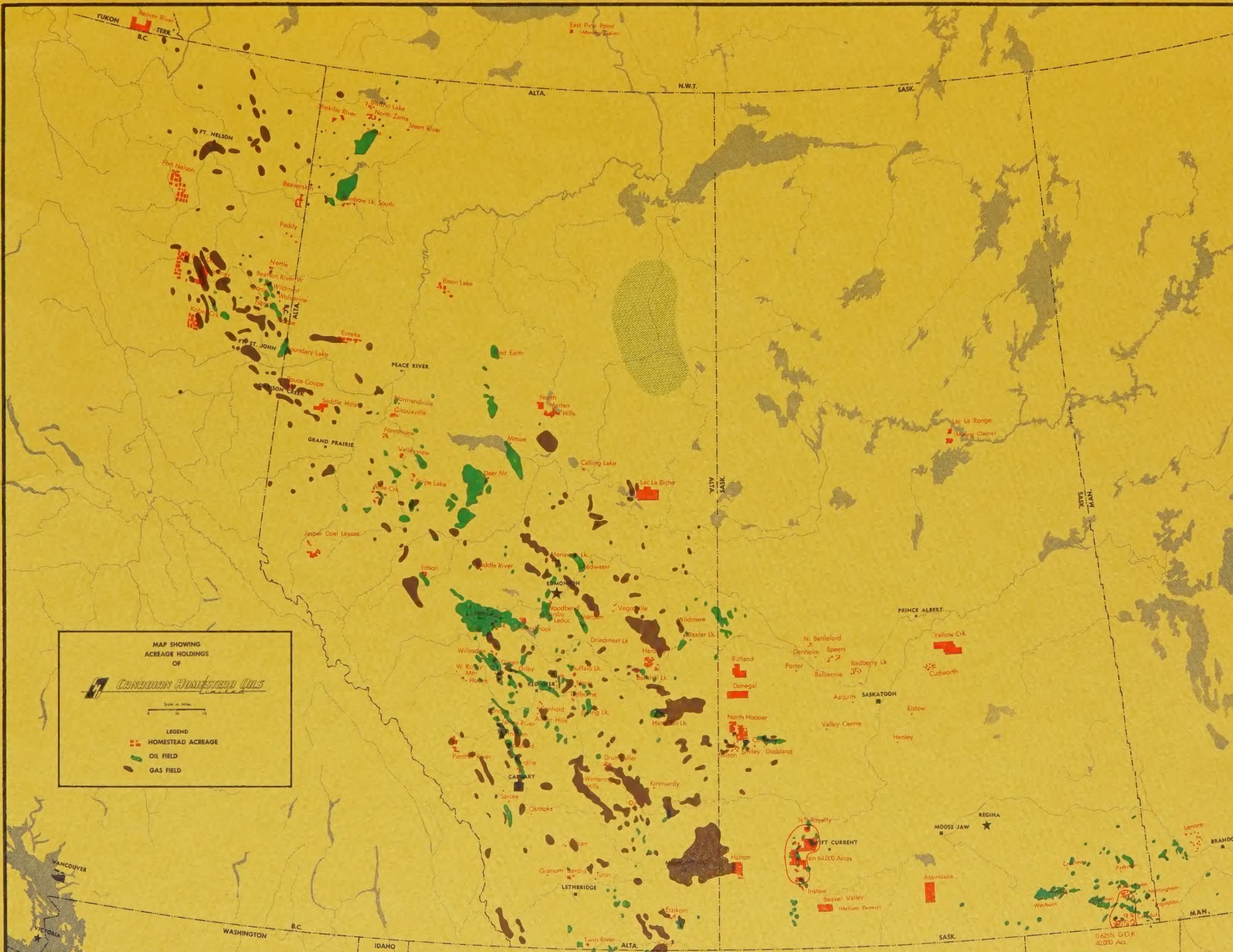
(2) Gives effect to the sale on May 31, 1961 of all assets related to the drilling division of Canadian Homestead Oils Limited.

(3) Full-cost method of accounting for exploration and development expenditures was adopted in 1965. The net earnings (loss) figures prior to 1965 have not been adjusted retroactively as a result of the change in accounting practice.

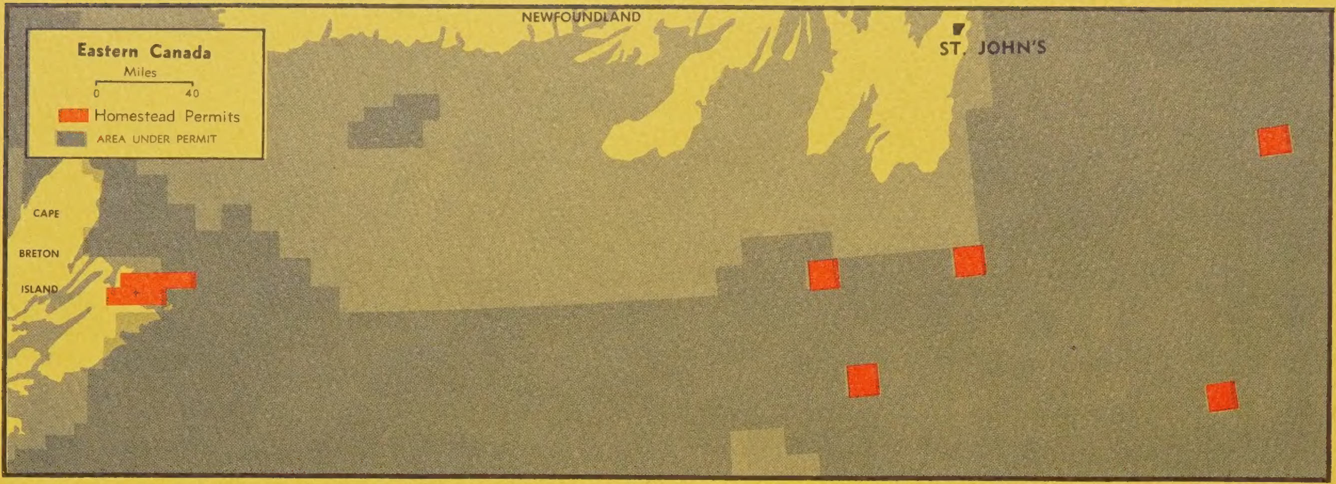
(4) Includes both capital and expense items.

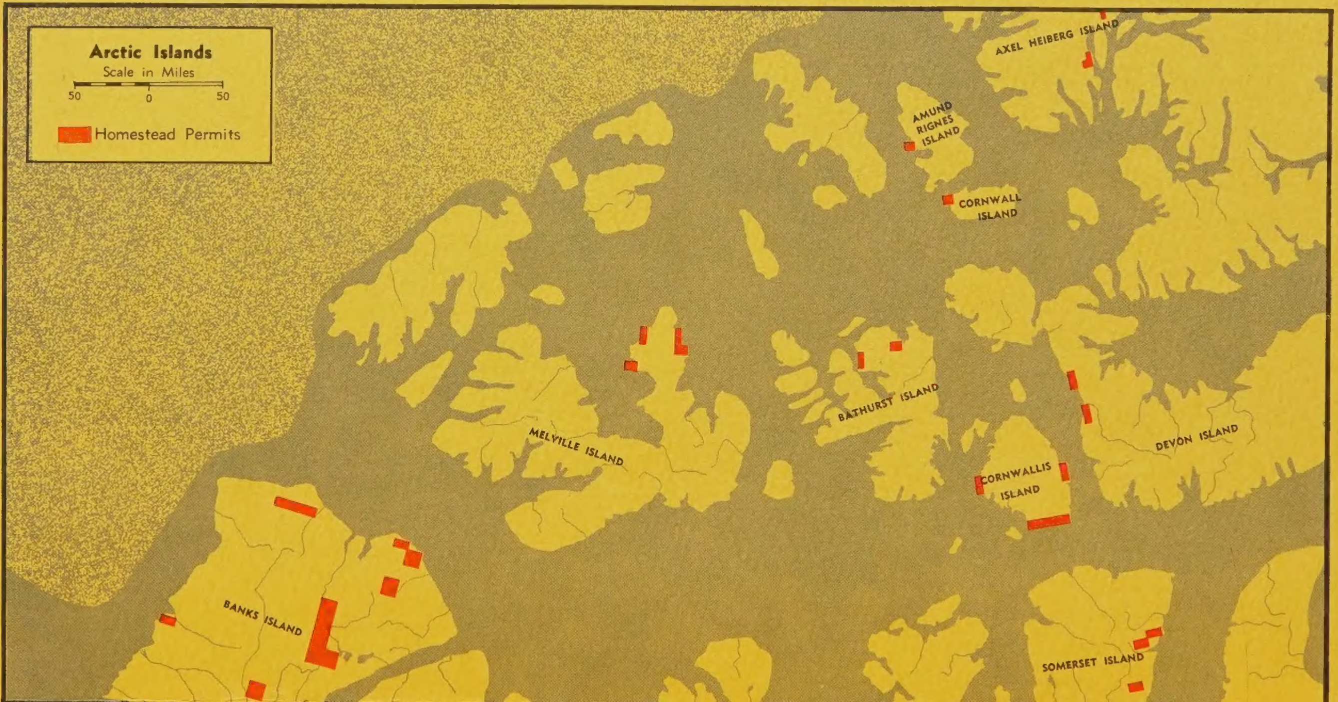


Map of gas lands currently under development in East Hatton area of Saskatchewan. Completion of this project in late 1968 will result in a substantial increase in the Company's production of natural gas.



MAP SHOWING
ACREAGE HOLDINGS
OF
CANADIAN HOMESTEAD OILS LIMITED
Scale in Miles
LEGEND
HOMESTEAD ACREAGE
OIL FIELD
GAS FIELD
YUKON
TERR.
B.C.
Beaver River
East Pine Point (Mining Claims)
ALTA.
N.W.T.
SASK.
MAN.
FT. NELSON
Fort Nelson
Shekilie River
North Zama
Steen River
Beaverskin
Rainbow Lk. South
Paddy
Nettie
Beatton River W
Wildmint
Wolverine
Bison Lake
Eureka
FT. ST. JOHN
Boundary Lake
PEACE RIVER
Red Earth
Pouce Coupe
Saddle Hills
Normandville
Girouxville
North Marten Hills
Foreshaw
GRAND PRAIRIE
Valleyview
Mitsue
Calling Lake
Deer Mt
Swan Hills
Sturgeon Lake
Lac La Biche
Jasper Coal Leases
Edson
Saddle River
Manawan Lk.
Redwater
EDMONTON
Vegreville
Wildmere
Baxter Lk.
Woodbend
Leduc
Driedmeat Lk
Buffalo Lk.
Willesden
Gilby
Delburne
Rutland
Donegal
Porter
N. Battleford
Denholm
Speers
Redberry Lk
Ballieonie
Yellow Crk
Cudworth
PRINCE ALBERT
SASKATOON
Elstow
Asquith
Valley Centre
Henley
North Hoosier
Dodsland
Smiley
Hamilton Lk
Panther River
CALGARY
Sarcee
Okotoks
Wintering Hills
Drumheller
Kinmundy
Lac La Ronge (Mining Claims)
MOOSE JAW
REGINA
FT CURRENT
on 64,000 Acres
Hatton
Assiniboia
Instow
Beaver Valley (Helium Permit)
Granum
Barons
Turin
LETHBRIDGE
Erzikom
Twin River
Weyburn
Parkman
Nottingham
Lenore
BRANDON
0.625% G.O.R.
40,000 Acs.
VANCOUVER
VICTORIA
WASHINGTON
IDAHO
MONTANA


Eastern Canada
Miles
0
40
Homestead Permits
AREA UNDER PERMIT
NEWFOUNDLAND
ST. JOHN'S
CAPE
BRETON
ISLAND


Arctic Islands
Scale in Miles
50
0
50
Homestead Permits
AXEL HEIBERG ISLAND
AMUND RIGNES ISLAND
CORNWALL ISLAND
MELVILLE ISLAND
BATHURST ISLAND
DEVON ISLAND
CORNWALLIS ISLAND
BANKS ISLAND
SOMERSET ISLAND

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